

Background Information



Oklahoma Police Pension & Retirement System
April 1st, 2015

OPPRS Overview

- The Oklahoma Police Pension and Retirement System is the most well funded large plan in the State of Oklahoma.
- Actuarial funded status is 94.6% as of June 30, 2014
- GASB 67 funded status is 101.53%, as of June 30, 2014
- The Oklahoma Police Pension and Retirement System Board of Trustees has historically implemented the investment portfolio in a much more risk averse manner than the other State Systems that are not nearly as well funded.
- Risk management is emphasized. By reducing portfolio volatility, funded status volatility is reduced as is volatility in the ARC.
- From September 1, 1985, through June 30, of 2014, the OPPER investment portfolio has produced an annualized return of 8.7%, well in excess of the actuarial assumed rate of return, which is presently 7.5%.
- 10-year portfolio risk is lower than 91% of all funds with a similar equity allocation.
- 10-year risk adjusted returns are better (more efficient) than 92% of all funds with similar equity allocation.
- The total investment management cost is well below the average of similarly positioned institutional investment portfolios (61.7 basis points versus 76 basis points).

Funded status of 94.6%, portfolio returns in excess of required return and risk adjusted returns relative to other investors are a proof statement as to the soundness of the long-term investment approach implemented by the Oklahoma Police Board of Trustees.

Statutory Authority

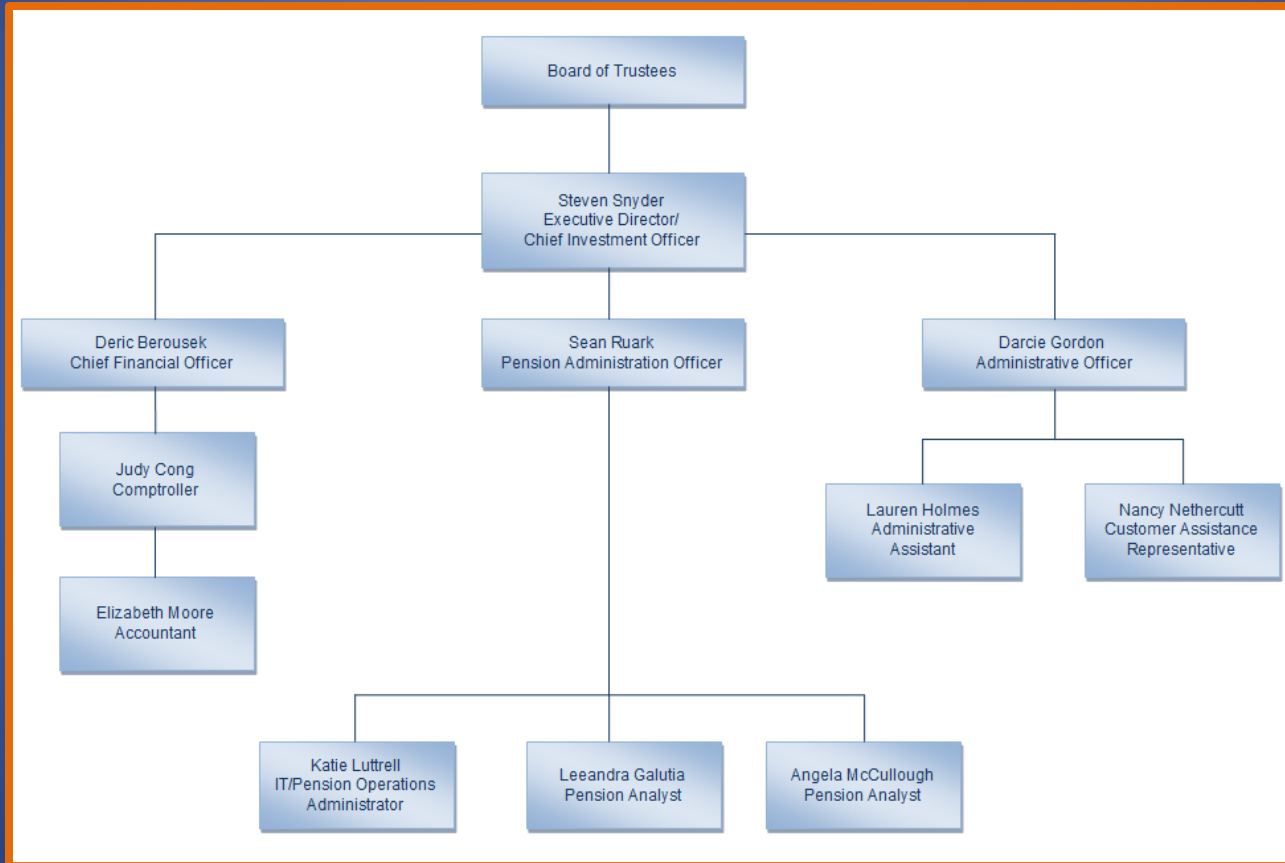
Title 11 O.S. § 50-101 et seq.

Title 550 of the Oklahoma Administrative Code

Structure of Agency

The Oklahoma Police Pension and Retirement System (“the System”) is an unclassified, non-appropriated state agency. The System is authorized to have a maximum of 12 FTE employees, and 11 positions are filled.

Organizational Chart



Description of Plan

General

The System is the administrator of a cost sharing multiple-employer defined benefit pension plan that provides participants with retirement, death, disability benefits as well as a deferred option plan (the "Deferred Option"), both established by the State of Oklahoma. These plans are considered a single plan for financial reporting purposes and, as such, is a qualified plan under Section 401(a) of the Internal Revenue Code. The System is part of the State of Oklahoma financial reporting entity and is included in the State's financial reports as a pension trust fund. The System covers substantially all police officers employed by the 136 participating municipalities within the state of Oklahoma.

The Oklahoma Police Pension and Retirement Board of Trustees (the "Board") is responsible for the operation, administration, and management of the System. The Board also determines the general investment policy of the System's assets.

Description of Plan

Benefits

The normal retirement date under the System is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the System. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered.

Description of Plan

Benefits (continued)

Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit. A \$5,000 death benefit is also paid, in addition to any survivor's pension benefits under the System, to the participant's beneficiary or estate for those active or retired members who have died after July 1, 1999.

Description of Plan

Benefits (continued)

The Deferred Option allows participants otherwise eligible for a normal retirement benefit to defer terminating employment and drawing retirement benefits for a period not to exceed 5 years. Under the Deferred Option, a separate account is established for each participant. During the participation period, the employee's retirement benefit that would have been payable to the participant is credited to the participant's account along with a portion of the employer's contribution and interest as specified in the Deferred Option provisions. Employee contributions cease once participation in the Deferred Option is elected. At the conclusion of participation in the Deferred Option, the participant will begin receiving retirement benefit payments and has the following options for receipt of their deferred option account balance:

- (1) A lump sum payment from the account equal to the option account balance of the participant, payable to the participant;
- (2) A lump sum payment from the account equal to the option account balance of the participant, payable to the annuity provider which shall be selected by the participant as a result of the research and investigation of the participant; or
- (3) Effective July 1, 2006, payment pursuant to the provisions of the Deferred Option Payout Provision Policy approved by the Oklahoma Police Pension and Retirement Board.

Effective July 1, 2003, the Deferred Option was amended to allow a member to retroactively elect to join the Deferred Option as of a back-drop-date which is no earlier than the member's normal retirement date or five years before his termination date. The monthly retirement benefits that would have been payable had the member elected to join the Deferred Option are credited to the member's Deferred Option account with interest.

Participation in System

All persons employed as full-time duly appointed or elected officers who are paid for working more than twenty-five (25) hours per week or any person hired by a participating municipality who is undergoing police training to become a permanent police officer of the municipality shall participate in the System upon initial employment with a police department of a participating municipality.

The only exceptions are:

- (1) The police chief of a participating municipality may be exempt from membership, and
- (2) A municipality that employs 2 or fewer full-time police officers may employ a police officer who is more than 45 years of age and who has never participated in the System, but such police officer shall not be eligible to participate in the System.

Membership Data

<i>Summary of Membership Data</i>	
Active Paid Members	4,557
Members with Deferred Benefits	132
Retired Members	2,480
Beneficiaries	699
Disabled Members	141
Refund Due to Members	763
Deferred Option Plan Members	30
<i>TOTAL</i>	8,802

Active Members Average Service: 12.1 years

Active Members Average Age: 39.9 years

Retirees/Beneficiaries/Disabled Members Average Annual Benefit: \$29,472

Accrued Accounts Payable for Deferred Option Plan Members: \$8.0 million

Historical Contribution Rates & Amounts Employer

Employer contributions are set by statute under 11 O.S. § 50-109.

Historical Contributions Rates Of Employer

January 1, 1981	4%
January 1, 1982	6%
January 1, 1983	8%
January 1, 1984	10%
January 1, 1991	10 ½%
January 1, 1992	11%
January 1, 1993	11 ½%
January 1, 1994	12%
January 1, 1995	12 ½%
January 1, 1996	13%

Employer Amount Contributed for FY 14: \$35.55 Million

Historical Contribution Rates & Amounts Employee

Employee contributions are set by statute under 11 O.S. § 50-110.

Historical Contribution Rates of Employee

January 1, 1981	4%
January 1, 1982	6%
January 1, 1983	8%

Employee Amount Contributed for FY 14: \$22.13 Million

Historical Record of State Appropriation and Insurance Premium Tax

RECEIVING YEAR END	STATE APPRO.	INS. PREM. TAX ALLOC.	REQUIRED STATE CONTRIBUTION	DIFFERENCE
June 1981	9,000,000	6,279,894	NO DATA	NO DATA
June 1982	15,683,000	7,282,503	NO DATA	NO DATA
June 1983	13,561,000	4,949,865	14,507,544	4,003,321
June 1984	13,561,000	5,691,547	12,794,700	6,457,847
June 1985	14,159,000	6,352,498	11,818,245	8,693,253
June 1986	12,659,245	7,151,452	8,905,346	10,905,351
June 1987		7,916,363	14,765,644	(6,849,281)
June 1988		10,725,200	13,430,559	(2,705,359)
June 1989		12,197,595	16,354,104	(4,156,509)
June 1990		11,255,313	18,608,442	(7,353,129)
June 1991		11,963,035	19,321,582	(7,358,547)
June 1992		12,790,920	21,041,573	(8,250,653)
June 1993		13,008,346	16,329,872	(3,321,526)
June 1994		14,413,383	18,202,719	(3,789,336)
June 1995		14,554,608	15,775,410	(1,220,802)
June 1996		15,150,175	10,459,301	4,690,874
June 1997		15,733,706	5,397,554	10,336,152
June 1998		16,816,398	21,949,436	(5,133,038)
June 1999		16,272,623	15,401,192	871,431
June 2000		17,403,792	32,500,777	(15,096,985)
June 2001		18,717,490	33,735,540	(15,018,050)
June 2002		20,034,025	49,594,364	(29,560,339)
June 2003		20,794,038	72,971,931	(52,177,893)
June 2004		0	49,700,490	(49,700,490)
June 2005		23,730,254	59,692,145	(35,961,891)
June 2006		23,583,896	67,668,746	(44,084,850)
June 2007		28,122,145	71,172,166	(43,050,021)
June 2008		26,019,748	70,604,768	(44,585,020)
June 2009		26,913,479	98,853,958	(71,940,479)
June 2010		22,292,135	113,892,443	(91,600,308)
June 2011		24,645,437	31,270,062	(6,624,625)
June 2012		28,091,660	44,891,731	(16,800,071)
June 2013		31,412,384	54,147,769	(22,735,385)
June 2014		31,329,401	26,428,620	4,900,781
TOTAL	\$78,623,245	\$553,595,308	\$1,132,188,733	(\$538,215,577)

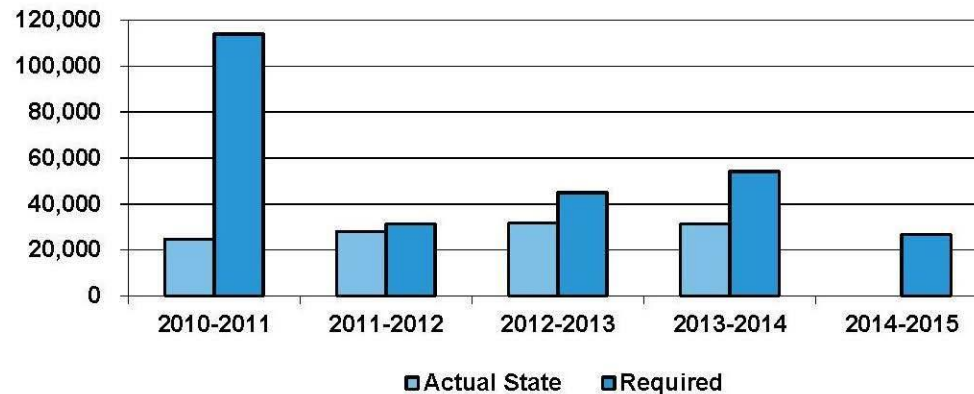
The grand total of State appropriations and Insurance Premium Tax received through June 30, 2014 is \$632,218,358.

* This amount does not reflect the required contributions for 1981 and 1982.

Contributions History Required vs. Received

As of June 30, 2014 the System has not received sufficient contributions to pay its normal cost which is 19.7% of payroll and the cost of amortizing the unfunded liability. The System's actuarial assumptions no longer include a 2% annual cost-of-living increase.

**State Contributions Received versus
Contributions Required by Funding Policy
(000's)**



As of July 1, 2014, the amortization period was changed to an open 5-year period.

Summary of Contribution Requirement

	Actuarial Valuation as of			
	July 1, 2014		July 1, 2013	
	Amount	% of Active Covered Comp.	Amount	% of Active Covered Comp.
1. Annual Covered Compensation for Members Included in Valuation				
a. Active Members	\$ 287,105,267		\$ 276,920,177	
b. Deferred Option Plan Members	2,397,060		2,093,345	
c. Total	\$ 289,502,327		\$ 279,013,522	
2. Total Normal Cost Mid-year	\$ 56,602,797	19.7%	\$ 54,994,819	19.9%
3. Unfunded Actuarial Accrued Liability	\$ 118,500,154		\$ 228,591,172	
4. Amortization of Unfunded Actuarial Accrued Liability over five years ⁽³⁾	\$ 28,267,346	9.8%	\$ 54,528,754	19.7%
5. Budgeted Expenses	\$ 2,006,392	0.7%	\$ 2,913,500	1.1%
6. Total Required Contribution (2 + 4 + 5)	\$ 86,876,535	30.3%	\$ 112,437,073	40.6%
7. Estimated Employee Contribution (8% x 1a)	\$ 22,968,421	8.0%	\$ 22,153,614	8.0%
8. Estimated Municipality Contributions				
a. Active Members	\$ 37,323,685	13.0%	\$ 35,999,623	13.0%
b. Deferred Option Plan Members	155,809	6.5% ⁽¹⁾	136,067	6.5% ⁽¹⁾
c. Total	\$ 37,479,494	12.9% ⁽²⁾	\$ 36,135,690	13.0% ⁽²⁾
9. Required State Contribution to amortize Unfunded Actuarial Accrued Liability over five years. (6 - 7 - 8c)	\$ 26,428,620	9.1% ⁽²⁾	\$ 54,147,769	19.4% ⁽²⁾
10. Previous year's actual State Contribution ⁽³⁾	\$ 31,329,000	11.2% ⁽⁴⁾	\$ 31,412,000	11.8% ⁽⁴⁾
11. Approximate period over which previous year's State Contribution will amortize current Unfunded Actuarial Accrued Liability (UAAL)	\$ 4 ⁽⁵⁾		\$ 9 ⁽⁵⁾	

⁽¹⁾ Percentage of Deferred Option Plan Members' covered compensation.

⁽²⁾ Percent of total covered compensation.

⁽³⁾ For the fiscal years beginning July 1, 2009, the system receives 14% of the State's revenue from insurance premium taxes. For fiscal years beginning July 1, 2010, the amount of insurance premium tax apportioned to the System will be applied prior to the calculation of the Home Office Credit.

⁽⁴⁾ Shown as a percent of previous year's total covered compensation (\$279,013,522 for 2013 and \$268,038,359 for 2012).

⁽⁵⁾ Amortization period assumes that the State contribution will increase at 3% per year and covered compensation for Deferred Option Plan members remains a constant percentage of total covered compensation

⁽⁶⁾ Funding Policy for July 1, 2013 is 30 years from July 1, 1988, and for July 1, 2014 is five years, which will be reset to five each year in the future.

Average Annual Rates of Investment Return

Year Ending June 30	Market Value		Annual Market Value Certified by Board's Financial Consultant	Interest Credited to Deferred Option Plan Accounts
	Annual	Cumulative		
1990	9.2%	9.2%	9.41	N/A
1991	8.1%	8.6%	8.09	7.50
1992	13.8%	10.3%	13.67	11.67
1993	15.1 %	11.5%	15.03	13.03
1994	0.0%	9.1%	1.06	7.50
1995	17.7%	10.5%	17.05	15.05
1996	13.5%	10.9%	12.89	10.89
1997	17.3%	11.7%	16.92	14.92
1998	16.9%	12.3%	16.80	14.80
1999	9.7%	12.0%	9.10	7.50
2000	8.7%	11.7%	8.48	7.50
2001	(5.3%)	10.2%	-5.28	7.50
2002	(5.6%)	8.9%	-5.07	7.50
2003	3.5%	8.5%	3.17	7.50
2004	15.0%	8.9%	15.08	13.10
2005	8.7%	8.9%	8.85	7.50
2006	11.0%	9.0%	10.87	8.90
2007	17.3%	9.5%	17.50	15.50
2008	(2.4%)	8.8%	(2.77)	7.50
2009	(16.4%)	7.4%	(16.59%)	7.50
2010	11.7%	7.6%	11.4%	9.40
2011	18.3%	8.0%	18.52%	16.52
2012	0.5%	7.7%	0.77%	7.5%
2013	12.5%	7.9%	12.65%	10.65%
2014	15.0%	8.2%	14.99%	12.99%

The system assumes a long-term actuarial annual rate of return of 7.5%. The cumulative return since 1990 is 8.2% which is above the long-term expected annual rate of return by 0.7%.

A member's Deferred Option Account earns interest at a rate of two percent below the rate of return of the total investment portfolio of the System (as calculated and certified by the Board's financial consultant), but no less than the actuarial assumed interest rate.

The actuarial market value of assets does not reflect market value as calculated and certified by the Board's financial consultant due to calculation methodology.

**Gross returns have exceeded the actuarially assumed rate of 7.5% in 18 of the last 24 years.*

Funded Ratio

The Ratio of Assets to Liabilities

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
07/01/1995	\$ 664,495,000	\$ 797,637,263	\$ 133,142,263	83.3%
07/01/1996	\$ 738,547,000	\$ 830,586,623	\$ 92,039,623	88.9%
07/01/1997	\$ 827,787,000	\$ 876,603,889	\$ 48,816,889	94.4%
07/01/1998	\$ 966,907,000	\$ 1,092,443,208	\$ 125,536,208	88.5%
07/01/1999	\$ 1,094,400,000	\$ 1,160,023,416	\$ 65,623,416	94.3%
07/01/2000	\$ 1,222,123,000	\$ 1,354,500,875	\$ 132,377,875	90.2%
07/01/2001	\$ 1,319,041,000	\$ 1,443,404,052	\$ 124,363,052	91.4%
07/01/2002	\$ 1,370,024,000	\$ 1,554,288,324	\$ 184,264,324	88.1%
07/01/2003	\$ 1,392,043,000	\$ 1,646,979,675	\$ 254,936,675	84.5%
07/01/2004	\$ 1,399,975,000	\$ 1,727,162,602	\$ 327,187,602	81.0%
07/01/2005	\$ 1,423,834,000	\$ 1,811,572,114	\$ 387,738,114	78.6%
07/01/2006	\$ 1,490,208,000	\$ 1,910,059,072	\$ 419,851,072	78.0%
07/01/2007	\$ 1,627,476,000	\$ 2,035,653,471	\$ 408,177,471	79.9%
07/01/2008	\$ 1,752,169,000	\$ 2,132,175,698	\$ 380,006,689	82.2%
07/01/2009	\$ 1,717,566,000	\$ 2,253,133,775	\$ 535,567,775	76.2%
07/01/2010	\$ 1,754,372,000	\$ 2,341,619,152	\$ 587,247,152	74.9%
07/01/2011	\$ 1,822,702,000	\$ 1,959,976,006	\$ 137,274,006	93.0%
07/01/2012	\$ 1,834,170,000	\$ 2,034,485,171	\$ 200,315,171	90.2%
07/01/2013	\$ 1,902,581,000	\$ 2,131,172,172	\$ 228,591,172	89.3%
07/01/2014	\$ 2,086,297,000	\$ 2,204,797,154	\$ 118,500,154	94.6%

June 30, 2014 Financial Status

Assets	\$2,086,297,000	} \$2,086,297,000 / 2,204,797,154 = 94.6% funded
Liabilities	\$2,204,797,154	
Unfunded Liability	\$118,500,154	

Ten-Year Projected Cash Flow (Retirement Benefit Payments)

Plan Year Ending	Total
6/30/2015	\$ 201,021,221
6/30/2016	\$ 148,726,552
6/30/2017	\$ 146,374,725
6/30/2018	\$ 156,572,220
6/30/2019	\$ 161,391,299
6/30/2020	\$ 174,338,578
6/30/2021	\$ 179,874,734
6/30/2022	\$ 179,337,384
6/30/2023	\$ 188,732,154
6/30/2024	\$ 186,747,951

Investment Strategy Portfolio Structure

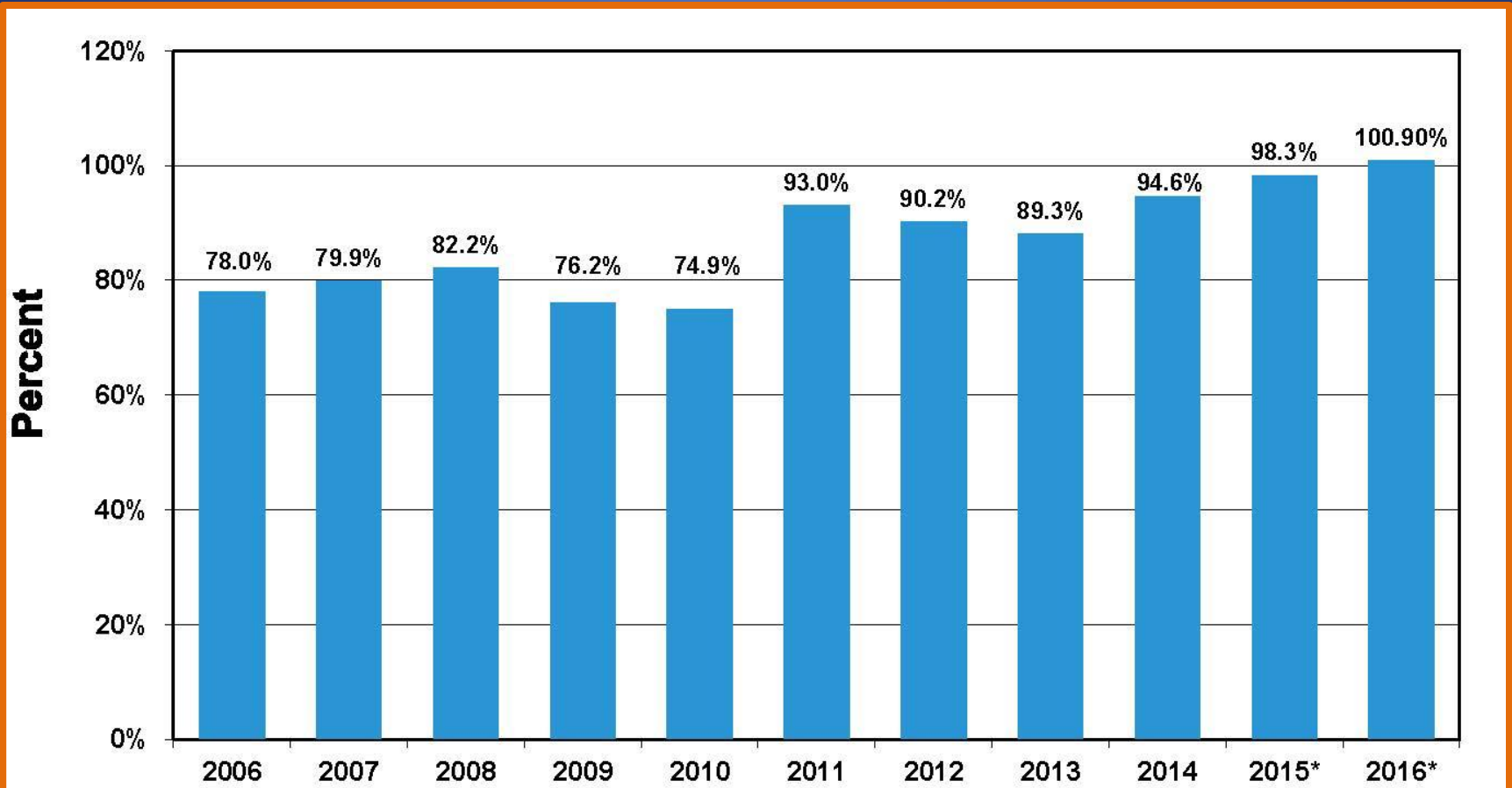
<u>Investment Strategy Portfolio Structure</u>			
<u>Investment Medium/Style</u>	Actual Asset Allocation at <u>6/30/2014</u>	Target Percentages Of Total <u>Assets</u>	Allocation Range
<u>Fixed Income</u>	26.99%	25%	15% - 35%
*Global Fixed Income	18.28%	15%	10%-20%
Low Volatility Hedge Funds	8.71%	10%	5% -15%
<u>Equities</u>	65.57%	60%	50% -70%
Large Cap	19.17%	15%	10%-20%
Small/Mid Cap	11.12%	5%	0%- 15%
International Developed	9.72%	10%	5%-15%
Emerging Markets	3.77%	5%	0% - 10%
Long/Short Equity	12.39%	15%	10% - 20%
Private Equity	9.40%	10%	5% - 15%
<u>Real Assets</u>	6.30%	15%	0%-20%
Core Real Estate	3.57%	5%	0% - 10%
Opportunistic Real Estate	1.60%	5%	0% - 10%
Commodities	1.12%	5%	0% - 10%

* Global fixed income may include U.S. & non-U.S. investment grade, U.S. & non-U.S. high-yield and U.S., non-U.S. and high income convertible bonds.

Legislative History of Cost of Living Adjustments

YEAR	COLA GRANTED	BASIS FOR COLA	FUNDED RATIO
1985	6%	Benefit amount as of June 30	58.8%
1986	6%	Benefit amount as of June 30	71.0%
1988	6%	Benefit amount as of June 30	75.7%
1990	5%	Benefit amount as of June 30	70.7%
1994	2 ½%	Benefit amount as of June 30	79.6%
1997	One Time Pay	\$150.00 to \$600.00 depending on service years as follows: At least 10 years but no more than 14 years: \$150.00 At least 15 years but no more than 19 years: \$300.00 At least 20 years but no more than 24 years: \$450.00 At least 25 years: \$600.00	94.4%
1998	CPIU up to 6/30/98	Replaced lost purchasing power since retirement.	88.5%
2000	4.7%	Benefit amount as of June 30	90.2%
2002	5%	Benefit amount as of June 30	88.1%
2004	4%	Benefit amount as of June 30	81.0%
2006	4%	Benefit amount as of June 30	78.0%
2008	4%	Benefit amount as of June 30	82.2%

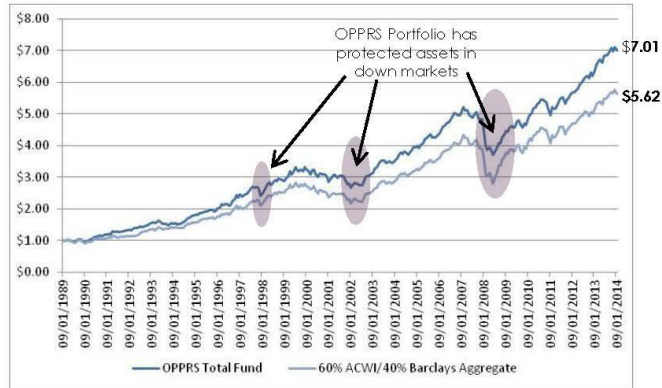
Funded Ratio: Actuarial Value of Assets as a Percent of Actuarial Accrued Liability



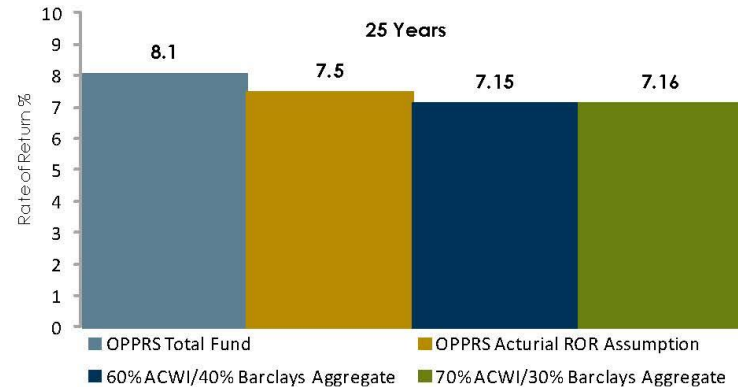
* Projected based on all assumptions being met, payroll growth of 4%, and an increase in State Insurance Premium Taxes and Special Allocations at 3% per year.

Oklahoma Police Pension and Retirement System Summary

Growth of a Dollar
25 Years Ending Sept. 30, 2014



Total Portfolio Annualized Return
For the Periods Ending Sept. 30, 2014



Risk vs. Return
25 Years Ending Sept. 30, 2014



	Annualized Return	Standard Deviation	Sharpe Ratio
OPPRS	8.10	9.52	0.50
60% ACWI / 40% Barclays Aggregate	7.15	10.32	0.37
70% ACWI / 30% Barclays Aggregate	7.16	12.02	0.32

Summary

- The Oklahoma Police Pension Retirement System is the most well funded large plan in the State of Oklahoma (94.6% as of June 30, 2014).
- Due to its funded status, OPPRS has focused its investment strategy on risk reduction, while maintaining attractive risk-adjusted returns.
- By having a highly diversified portfolio and minimizing its risk profile, OPPRS has been able to grow its assets at a higher rate than a traditional portfolio mix of 60% equities / 40% bonds, while also minimizing the loss of principal and protecting assets during negative market environments.
- In reducing portfolio volatility, funded status volatility is reduced, as is volatility in the Annual Required Contributions(ARC).
- OPPRS' total investment cost is well below the average of similarly positioned institutional investment portfolios (62 basis points versus 76 basis points).
- OPPRS has been able to achieve higher returns, with less risk while paying lower fees. This, combined with a 94.6% funded status, is a testament to the soundness of the long-term investment approach implemented by OPPRS.